Weekly Economic Review

Inflation falls to lowest rate in almost two years

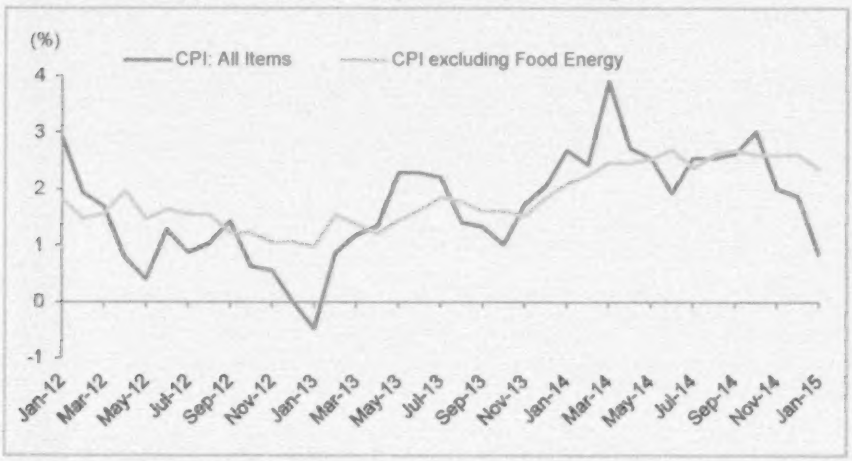
Consumer Price Index

Energy prices dampen inflation

The Alberta inflation rate in January was 0.8% year-over-year (y/y), the lowest rate in almost two years and over 1 percentage point lower than in December. The lower rate was mainly the result of gasoline prices, which fell 28.0% y/y. Excluding energy, inflation was 2.4% (Chart 1). Growth in shelter costs eased to 2.1% due to falling electricity and natural gas prices. However, homeowners' home and mortgage insurance added to shelter costs, rising 15.2%, the 13th consecutive month of double-digit growth. Food prices also increased, rising 4.4% year-over-year (y/y), as meat prices rose 15% and vegetable prices increased 12%.

Chart 1: Energy prices pull down inflation

Alberta Consumer Price Index (CPI), year-over-year change



Source: Statistics Canada

Canadian inflation was down to 1.0% in January, in large part due to volatile energy prices. Excluding the eight most volatile components, The Bank of Canada's Core inflation was 2.2%.

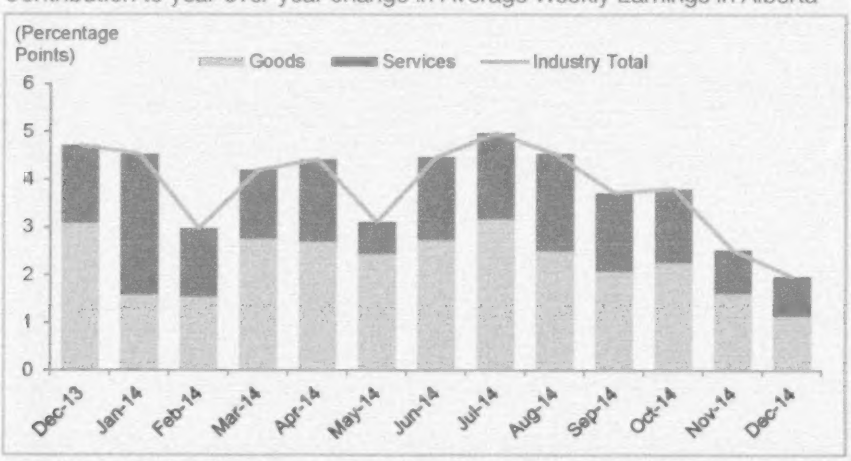
Average Weekly Earnings

Earnings growth softens

Alberta average weekly earnings (AWE) were $1,163 in December, an increase of 2.0% y/y. This was the lowest growth rate of 2014 and as growth continued to slow over the second half of 2014 (Chart 2). The goods-producing industries accounted for the majority of the slowdown, with earnings growth at the lowest rate since July 2011. Earnings growth in the service-producing industries has also slowed, but to a lesser extent. Some industries saw sizeable jumps in earnings, notably utilities (+9.7% y/y) and the management of companies (+8.9% y/y). On an annual basis, AWE grew by 3.8% to $1149.50 in 2014, remaining the highest earnings across the provinces.

Chart 2: Average Weekly Earnings growth has slowed

Contribution to year-over-year change in Average Weekly Earnings in Alberta



Source: Statistics Canada

Oil and Gas Drilling

Rig activity plummets

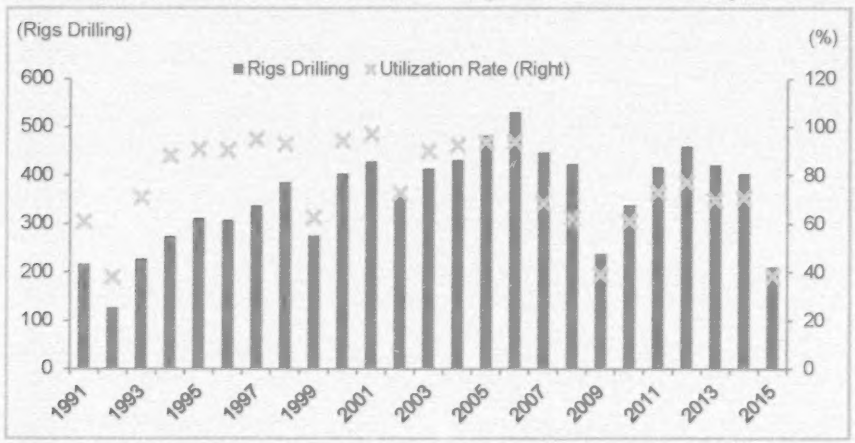
There were 211 rigs drilling for oil and gas in February, down 48 percent from the same month last year. This is the lowest February rig count since 1993, and the largest annual decline in rig activity since September 2009. Only 38 percent of available rigs were drilling,

the lowest rig utilization for February since 1992 (Chart 3). Lower oil prices have caused rig activity to fall across North America, with the number of rigs drilling down 44% y/y in Canada and 26% y/y in the US.

The latest statistics on the number of metres drilled are for December, two months behind the rig count statistics. As such, they have yet to show a big drop off in activity. There were 1.2 million metres drilled for oil and gas in December, up 42% y/y. Though metres drilled for oil slowed in December, they were still up 11.2% y/y. Metres drilled for natural gas were up an incredible 91%, as drillers increasingly made use of horizontal drilling techniques. Overall in 2014, The number of metres drilled was up 40%, led by a 90% increase in natural gas metres drilled.

Chart 3: February rig activity falls to two decade low

Active rigs and utlization rate in Alberta during the month of February



Source: CAODC

Chart 4: Crude-by-rail shipments continue to rise

Carloadings of fuel oils and crude petroleum

Source: Statistics Canada

Farm Product Price Index

Livestock prices boom

Farm prices continued their upward trend in December 2014, up 17% from December 2013, the highest year-over-year growth since November 2011. Cattle prices drove the increase, up 51% y/y. Hog prices have softened from strength earlier in the year, but remain up 15%. Grain prices have rebounded slightly since bottoming out in August, but remain down 4.2% y/y and are 26% below the high reached in April 2013.

Rail Carloadings

Potash carloadings lead growth

The number of rail carloadings in Western Canada increased 12% y/y in December with potash cars up 49% y/y. Oil shipments also posted a strong gain to end the year, up 28% y/y as the use of rail for shipping crude continues to grow. Crude oil shipments share of rail carloadings has grown from under 3% in 2011 to almost 10% (Chart 4). Wheat shipments returned to growth in December, up 13% y/y, after falling in November.

US Housing

Home sales decline in January

The US housing market cooled slightly in January, as the sale of new homes fell by 0.2% from December, while sales of existing homes fell 4.9%. Despite the decline, the US housing market has shown gradual improvement. At 5.3 million, new home sales in 2014 were the highest since 2008. Prices have continue to recover, with the Case-Shiller home price index up 4.5% y/y in December rising to the highest level since March 2008.

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Please see the *Alberta Economy- Indicators at a Glance* for a snapshot of Alberta indicators.